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SUB-SECTION	DEFINITIONS	REVISION NUMBER 99-001

DEFINITIONS

Accounting System	The methods and records established to identify, assemble, analyze, classify, record, and report an entity's transactions and to maintain accountability for the related assets and liabilities.
Assertions	Management representations that are embodied in the account balance, transaction class, and disclosure components of financial statements. They include (1) existence or occurrence, (2) completeness, (3) rights and obligations, (4) valuation or allocation, and (5) presentation and disclosure.
Assessing Control Risk	The process of evaluating the effectiveness of an entity's internal control structure policies and procedures in preventing or detecting misstatements in financial statement assertions.
<u>Government Auditing Standards</u>	Issued by the Comptroller General of the United States as the <u>Standards for Audit of Governmental Organizations, Programs, Activities, and Functions</u> (1988 Revision), this document contains audit standards that must be followed for audits of federal organizations, programs, activities, functions, and funds received by contractors, nonprofit organizations, and other external organizations. The document is also recommended for audits of state and local government organizations, programs, activities, and functions.
Internal Auditing	An independent appraisal activity within an agency for the review of operations as a service to management. Internal auditing functions by measuring and evaluating the effectiveness of various types of controls (primarily accounting and financial) and may also properly be concerned with matters of an operating nature. An audit is a methodical examination of the utilization of resources. It concludes with a written report of its findings. An audit also tests the management's accounting system to determine the extent to which internal accounting controls are both available and being used.
Internal Control Structure	The policies and procedures established to provide reasonable assurance that specific entity objectives will be achieved.

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SUB-SECTION	BASIC REQUIREMENTS	REVISION NUMBER 99-001

BASIC REQUIREMENTS

- A. Agency heads or authorized designees are assigned the responsibility and authority for establishing and maintaining an internal audit program following the Standards for the Professional Practice of Internal Auditing. The decision to employ an internal audit program in an agency should be made after a risk assessment is completed and the priority of the need for an internal auditor is compared to the agency's programmatic needs.
- B. Internal auditing is to provide for:
1. Effective control devices to ensure that objectives and prescribed procedures are being followed at all levels of the organization.
 2. Isolation of problem areas and to provide a means for corrective action before operational efficiency is affected.
 3. Additional internal checks and controls for more effective management.
 4. Improved communication channels within the organization.
- C. Internal auditing is to be a staff rather than an operating function. Internal audit functions are not to be performed by individuals responsible for associated line operating assignments. In the larger agencies, separate internal auditing staff positions are to be established.
- D. The internal auditor is to:
1. Conduct independent analysis and review of agency activities.
 2. Occupy a position in the organization not subject to those line officials whose activities will be reviewed.
 3. Report and submit the audit findings, recommendations, and analysis directly to the agency head, or chief executive officer.
- E. Internal audits are to include both pre-audits and post-audits. A pre-audit refers to audit activities performed during the year, particularly if the audit is completed prior to year-end. A post-audit is a complete examination of the year's activities. In either case, the audit is after the fact and not a part of the actual accounting process.
- F. Comprehensive internal audits as a post-audit function are to be accomplished. In addition, performance audits are to be performed whenever practicable and cost effective.

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- G. Internal audit findings are to be documented in a written report. In addition to the audit findings, the report may detail required and/or suggested recommendations as to:
1. Improvements in internal accounting controls which would improve the economy, efficiency, and effectiveness of operations.
 2. Improvements necessary to assure the accuracy and reliability of reported information.

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SUB-SECTION	SYSTEM AND CONTROL QUESTIONNAIRE	REVISION NUMBER 99-001

SYSTEM AND CONTROL QUESTIONNAIRE

The following is a general internal control questionnaire for all funds. This questionnaire is general and should be adopted to the specifics of the agency.

1. Are the accounting operations of the agency centralized?
 - a. If not, briefly describe the accounting functions performed by each department/division.
2. Are principal accounting records and accounting employees at all locations under the supervision of a principal accounting officer?
 - a. Identify the principal accounting officer(s).
3. Does the MAAPP manual serve as the agency's accounting procedures manual and is it maintained on a current basis?
4. Is the accounting system automated or is it maintained on a manual basis?
 - a. If automated, complete the EDP control questionnaire.
 - 1) Identify the printouts which serve as the agency's journals and ledgers.
 - 2) Identify personnel responsible for data entry.
 - 3) Identify the personnel responsible for approving system changes.
 - b. If a manual system, identify the types of journals and ledgers maintained.
5. Review journals, ledgers, and any other pertinent documents necessary to understand the accounting records. Document the results of review.
6. Are postings to general and subsidiary ledgers properly supported?
7. Is access to accounting records limited at all times to persons whose duties require such access?
8. Are duties separated so that no one individual has complete authority over an entire financial transaction?

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9. Are all general journal entries, other than standard entries, required to be supported by explanation and/or documentation and authorized by a responsible official not involved with the origination or entries?
10. Identify those persons responsible for:
 - a. Preparation of journal entries.
 - b. Review and approval of journal entries.
11. Summarize the effects that the general portion of the accounting system and control procedures have upon the agency.

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SUB-SECTION	ASSETS - CASH IN TREASURY	REVISION NUMBER 99-001

ASSETS - CASH IN TREASURY

1. Does the agency receive the following:
 - a. Currency?
 - b. Checks/warrants?
 - c. Wire transfers?
2. Does the agency have a receipts-in mail log?
3. Are the checks restrictively endorsed when receipted?
4. Who is responsible for preparation and approval of the CRs?
5. What controls are maintained to ensure that the CRs are in agreement with the mail and/or receipt log?
6. Who signs the CRs?
7. How often are cash receipts transferred to the state treasury?
8. Is the recording of the receipt in the accounting records done by someone other than the person receiving the cash/checks? Other than the person preparing the CRs?
9. Are the CRs prenumbered and are permanent copies retained?
10. Identify the types of supporting documentation filed with the CRs.
11. Who compares the mail and/or receipt log to the Treasurer's Receipt Warrant and the cash receipts journal?
12. Does the person receiving cash have authority to sign requisitions?
13. Who has responsibility for reconciling cash in treasury per agency records to BFC printouts?
14. How often are reconciliations performed?
15. Who reviews the reconciliations and sees that reconciling items are resolved in the following month?

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16. Identify the types of material misstatements that could occur:
- a. Individual receiving money diverts funds to own use.
 - b. Amount received is incorrectly recorded.
 - c. Deposits to the treasury are not made on a timely basis.
 - d. Receipts and/or disbursements are incorrectly recorded.
 - e. Receipts are allocated to the wrong treasury fund.
 - f. Deposits and disbursements made during the lapse period are recorded in the wrong FY.

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SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	ASSETS - CASH IN BANKS	REVISION NUMBER 99-001

ASSETS - CASH IN BANKS

1. Are all bank accounts properly authorized by the State Treasurer/DFA?
2. Does the agency receive the following:
 - a. Currency?
 - b. Checks/warrants?
 - c. Wire Transfers?
3. Are checks restrictively endorsed when opened?
4. Are checks recorded on a mail log?
5. Who is responsible for preparation of the deposit slip?
6. Is it prepared in duplicate?
7. Who carries the money to the bank?
8. Is it deposited on the same day of receipt?
9. Are transfers from the bank accounts to the State Treasury made when funds are collected?
10. Who signs the checks to make the transfer?
11. Do the checks for making the transfer require two signatures?
12. What checks other than those transferring to the State Treasury, are written on the account?
13. Who reconciles the account to the bank and deposit slips?
14. Are deposit slips and cancelled checks maintained as a permanent record by the agency?
15. Who compares the receipt log to the validated deposit slip?
16. If funds are required to be transferred to the general fund, have the transfers been made when the funds are collected?
17. Are prenumbered checks used for all disbursements from bank accounts?
18. Who ascertains that all numbers are accounted for?
19. Where is the supply of unused checks stored?
20. Who has access to the check supply?

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SUB-SECTION	ASSETS - CASH IN BANKS	REVISION NUMBER 99-001

21. Are blank checks signed in advance?
22. Are checks made payable to cash?
23. Are all checks written before the end of the FY actually distributed to the payees?
24. Are checks mailed without allowing them to return to the person who prepared the check?
25. Indicate the supervisory personnel responsible for reviewing the bank reconciliations.
26. Are bank balances, in excess of the \$100,000 FDIC limit, adequately secured?
27. If so, are pledged securities held in the agency's name? In the name of the bank's trust account?
28. Identify the types of material misstatements that could occur.
 - a. Individual receiving money diverts funds to own use.
 - b. Amounts received are incorrectly recorded.
 - c. Deposits to bank account (and treasury if clearing account is used) are not made on a timely basis.
 - d. Receipts and disbursements are not recorded promptly.
 - e. Deposits and payments made in the lapse period are recorded in the wrong FY.

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SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	ASSETS - ACCOUNTS RECEIVABLE/DUE FROM STATE AGENCIES	REVISION NUMBER 99-001

ASSETS - ACCOUNTS RECEIVABLE/DUE FROM STATE AGENCIES

1. Identify the sources from which these accounts receivable are derived.
2. In which of the following ways is the GAAP basis amount of accounts receivable/due froms entered in the GAAP package(s):
 - a. Directly from the agency books?
 - b. Through a GAAP adjustment?
 - c. From the agency books combined with a GAAP adjustment?
3. Describe procedures in which the agency estimates or determines these receivables.
4. Describe procedures and employees responsible for initially establishing an accounts receivable.
5. How does the accounting department become aware that an accounts receivable has been established?
6. Identify the personnel responsible for:
 - a. Posting to the subsidiary ledger.
 - b. Posting to the general ledger.
 - c. Is the cashier denied access to these records?
7. How often is the accounts receivable subsidiary ledger posted to the general ledger?
8. At what periodic intervals is the accounts receivable subsidiary ledger reconciled with the general ledger control?
 - a. Who performs these reconciliations?
9. Are all bad debt write-offs approved by a responsible official?
 - a. By whom?
10. For accounts that have been written off, verify that adequate files are maintained by the agency to avoid violation of the provision in the Constitution which prohibits the forgiveness of debts owed to the state.
11. Are invoices for goods and services rendered renumbered and accounted for in the billing department and correlated with prenumbered shipping documents received directly from the shipping department?

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12. Are voided invoices approved and retained? Is documentation attached for voiding the invoice?
13. Are there procedures in place to identify any delinquent accounts?
 - a. Who performs periodic review of delinquent accounts?
 - b. What action is taken to ensure proper collection of these accounts?
14. For charges not based on standard price lists, identify the employee responsible for approving such charges.
 - a. Is this person outside the billing department?
15. Identify the personnel responsible for:
 - a. Preparing invoices.
 - b. Checking clerical accuracy of each invoice.
 - c. Mailing invoices.
16. How often are customer statements mailed?
 - a. Identify personnel responsible for preparing and mailing the statements.
17. Are refunds of overpayments on accounts made?
 - a. Describe the controls established over these refunds.
 - b. Identify employees responsible for approving the refunds.
18. When goods are returned, who is responsible for accepting the returned goods?
 - a. How is the return of such goods documented?
19. Describe the documents and/or procedures used to notify the accounting department that noncash credits should be made to the individual accounts.
 - a. Describe any weaknesses.
20. Describe the procedures in which financial transactions are summarized and reported on the GAAP package(s).
 - a. Identify persons responsible.

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21. Identify the types of material misstatements that could occur:
- a. Amount of receivables and/or collections on account are incorrectly recorded.
 - b. Receivables are not recorded for all goods or services sold.
 - c. Collections on account of other credits are erroneously omitted from the records.
 - d. Receivables and/or collections on account are not recorded in proper period.
 - e. Amounts of receivables are improperly estimated.
 - f. Other
22. Describe the policies and procedures established by the agency to prevent or detect these material misstatements.

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SUB-SECTION	ASSETS - INVENTORY	REVISION NUMBER 99-001

ASSETS - INVENTORY

1. Identify the specific types of inventory accounts present at the agency.
2. Who has custody of each inventory type and where is the inventory located?
3. Is the person charged with custody of inventory without authority to order goods?
4. Identify any physical safeguards to prevent loss by fire or theft.
5. How does the purchasing department become aware of the inventory items to be ordered?
6. If inventory items are received at a warehouse, how is the accounting department informed that the goods have been received?
 - a. Are receiving reports utilized?
7. Describe the system by which materials or supplies are issued to various departments.
8. List the provisions established for disposing of obsolete or inactive items in inventory.
 - a. Who approves the disposals?
9. Describe the system or method for ensuring that inventory levels are reasonable in relation to the needs of the agency.
10. Are the inventory accounts of the agency included in the general ledger?
 - a. If so, how often is the general ledger posted and by whom?
11. Briefly describe, by location, the process utilized by the agency to record inventory in the accounting records.
12. What type of inventory system is maintained, periodic or perpetual?
13. If a perpetual inventory system, describe the system in place at the agency.
 - a. Who maintains the perpetual inventory records?
14. If a perpetual system is not used, is reasonable control obtained through close supervision?
 - a. Identify the control procedures in place?
15. If a perpetual system is not maintained, describe the inventory system in use.

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16. For perpetual systems, is a comparison of general ledger controls and perpetual records made periodically?
 - a. If so, how often is this procedure performed and by whom?
17. How often and on what dates are all classes of inventory items physically counted?
18. Are written inventory instructions maintained?
 - a. If so, review these instructions and document the results of review.
19. Identify personnel responsible for the actual counting of inventory items.
 - a. Are these employees independent of the department being inventoried?
20. Who supervises the physical inventory process?
21. Describe the physical inventory process including the types of documents used.
22. What cut-off provisions were made for the receipts and issues of inventory items during the physical count?
23. Were the perpetual records adjusted to the actual inventory quantities per physical counts?
 - a. If so, who approves these adjustments?
24. Identify personnel responsible for investigating material discrepancies between perpetual records and physical inventories.
25. If the physical inventory was performed at a date other than June 30th, describe the process utilized by the agency to ensure that inventory balances are adjusted to properly reflect any receipts or issuances between the count date and the fiscal year-end.
26. How and by whom is the final inventory listing compiled?
27. Identify the inventory valuation method utilized by the agency.
28. Describe the procedures established to ensure that the proper price is assigned to each item on inventory.
 - a. Who performs the procedures?

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29. Identify the personnel responsible for testing the final inventory listing for clerical accuracy.
 - a. If no evidence is present to indicate that this procedure has been performed, test check the inventory listing for clerical accuracy. Document results.
30. Who prepares the portion of the GAAP packages that relate to inventory?
 - a. From what source is this information taken?
31. Describe any additional control procedures in place at the agency such as any internal audit functions.
32. Review the internal controls described above and document any weaknesses noted.
33. Identify the types of material misstatements that could occur:
 - a. Items received are not properly recorded as inventory.
 - b. Issuance of inventory items is not properly recorded.
 - c. Improper price per unit is assigned to an inventory item.
 - d. Items recorded as inventory do not exist or are not owned by the agency.
 - e. Other.
34. Describe the policies and procedures established by the agency to prevent or detect these material misstatements.

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SUB-SECTION	ASSETS - OTHER	REVISION NUMBER 99-001

ASSETS - OTHER

An agency may have assets such as investments which may be unique to that agency. An internal control questionnaire specific to any additional asset accounts should be developed for those asset accounts which are significant.

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SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	LIABILITIES - ACCOUNTS PAYABLE/DUE TO	REVISION NUMBER 99-001

LIABILITIES - ACCOUNTS PAYABLE/DUE TO

1. In which of the following ways is the GAAP basis amount of accounts payables entered on the GAAP packages:
 - a. Directly from the agency books?
 - b. Through a GAAP adjustment?
 - c. From the agency books combined with a GAAP adjustment?
2. Describe the procedures the agency uses to estimate or determine payables. Are there any supervisory review procedures?
3. Describe the procedures and employees responsible for initially establishing an accounts payable.
4. How does the accounting department become aware that an accounts payable has been established?
5. What procedures and personnel are responsible for comparing invoices against accounts payable?
6. Once an accounts payable has been established or payment has been made, who is responsible for:
 - a. Posting to the subsidiary ledger?
 - b. Posting to the general ledger?
 - c. Are these individuals responsible for signing checks/requisitions independent from the posting function?
7. How often is the accounts payable subsidiary ledger posted to the general ledger?
8. At what periodic intervals is the accounts payable subsidiary ledger reconciled with the general ledger control?
 - a. Who performs these reconciliations?
9. Are adjustments to accounts payable required to be supported by proper approval?
 - a. Who is authorized to approve the adjustments?
10. When goods are returned to vendors and/or services are unsatisfactory, describe the controls in place to ascertain that payments are not made and accounts payable balances are adjusted accordingly.
11. Describe the year-end cut-off procedures established to ensure that all goods or services received but not paid for at June 30 are included in accounts payable.

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12. What procedures are in place to ensure that no encumbrances are included in the accounts payable balance reported at year-end?
13. Describe the procedures in which financial transactions are summarized and reported on the GAAP packages. Identify persons responsible.
14. Review the internal controls as described above and document any weaknesses noted.
15. Identify the types of material misstatements that could occur:
 - a. Amount of accounts payable and/or payments made are incorrectly recorded.
 - b. Payables are not recorded for all goods or services received.
 - c. Payments made or other debits are erroneously omitted from the records.
 - d. Payables and/or payments made are not recorded in the proper period.
 - e. Amounts of payables are improperly estimated.
16. Describe the policies and procedures established by the agency to prevent or detect these material misstatements.

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SUB-SECTION	LIABILITIES - OTHER	REVISION NUMBER 99-001

LIABILITIES - OTHER

An agency may have liabilities which are unique to that agency. An internal control questionnaire specific to any additional liability accounts should be developed for those liability accounts which are significant.

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SUB-SECTION	REVENUES - GENERAL	REVISION NUMBER 99-001

REVENUES - GENERAL

1. Identify the significant types of revenue received by the agency in each fund.
2. Review the Cash in Treasury and Cash in Bank sections relating to the receipt of significant types of revenues.
3. Are all revenues recorded in cash receipts journal?
4. For any revenues not recorded in the cash receipts journal, describe the process by which these revenues are recorded in the accounting records.
5. If agency has a clearing fund, what kind of revenue sources are deposited into the fund?
6. What kind of controls does the agency have to make sure revenue is not recorded twice - once as received into the clearing fund and then again as received by the treasury fund?

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SUB-SECTION	REVENUES - LICENSES, FEES AND PERMITS	REVISION NUMBER 99-001

REVENUES - LICENSES, FEES AND PERMITS

1. What types of licenses, fees or permits are issued by the agency?
2. Are licenses and/or permits prenumbered?
3. What controls are in place to safeguard the inventory of licenses and/or permits?
 - a. Are license or permit books inventoried periodically?
4. Describe the controls established to ensure that charges are in accordance with state law and agency policy.
5. Review applicable rate schedules noting any deviations from state law and agency policy.
1. Document the process and personnel responsible for determining the proper revenue code.
7. Describe the process and the personnel responsible for recording transactions in the accounting records.
 - a. How often are these procedures performed?
8. Identify the supervisory controls in place which would ensure that transactions are properly recorded in the accounting records.
9. Describe the procedures in which financial transactions are summarized and reported on the GAAP packages.
 - a. Identify persons responsible.
10. Review the controls over cash receipts documented in the Cash in Treasury and Cash in Bank sections of this Internal Control Questionnaire.
11. Are persons recording transactions separate from the initial receipt of cash?
12. Review the internal controls described above and document any weaknesses noted.

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13. Identify the types of material misstatements that could occur:
 - a. Receipt is recorded in wrong fund and/or revenue code.
 - b. Revenue is recorded at incorrect amount.
 - c. Revenue is recorded in wrong period.
 - d. Revenue is not recorded in the accounting records.
 - e. Incorrect rate is charged.
14. Describe the policies and procedures established by the agency to prevent or detect any material misstatements.

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.20.42
SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	REVENUES - OTHER	REVISION NUMBER 99-001

REVENUES - OTHER

An agency may have revenues which may be unique to that agency. An internal control questionnaire specific to any additional revenue accounts should be developed for those revenue accounts which are significant.

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.20.50
SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	EXPENDITURES - GENERAL	REVISION NUMBER 99-001

EXPENDITURES - GENERAL

1. Complete the applicable questions in Cash in Treasury and Cash in Bank sections relating to the disbursements for significant types of expenditures.
2. Is the purchasing function separate from accounting and receiving?
3. Describe the ways in which the purchasing department becomes aware of goods and services needed by various departments.
4. Are purchase requests consolidated in order to take advantage of quantity discounts and to avoid excess inventories?
5. Are purchase requests checked against budget allotments before a PO is issued?
 - a. If so, who performs this procedure?
6. Identify agency personnel responsible for:
 - a. Preparation of POs.
 - b. Authorization of POs.
7. What controls are in place to ensure that POs are prepared and approved prior to the ordering of goods?
8. Describe the procedures for controlling and accounting for POs.
9. Is an open file of outstanding POs maintained and reviewed periodically?
10. Does the agency have a central receiving department to handle the receipt of all goods?
 - a. Does the receiving department maintain a log book or permanent copy of the receiving ticket?
 - b. Does the receiving department issue numerically controlled receiving reports for all goods received?
11. If no central receiving department exists, document the procedures performed by personnel to indicate goods were actually received.
12. Describe the process for controlling invoices when initially received.
13. Document procedures for and personnel responsible for checking invoices against POs and receiving reports.

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SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	EXPENDITURES - GENERAL	REVISION NUMBER 99-001

14. Are records maintained of suppliers or contractors who have not performed satisfactorily in the past?
15. Is a record made of all items returned to vendors?
 - a. Describe procedures in place to ensure that proper credit is received.
16. Identify controls to prevent duplicate payment of invoices and vouchers.
17. By what means are requisitions submitted to BFC?

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.20.51
SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	EXPENDITURES - SALARIES AND FRINGE BENEFITS	REVISION NUMBER 99-001

EXPENDITURES - SALARIES AND FRINGE BENEFITS

1. Do all of the agencies payroll transactions flow through BFC?
2. Are the majority of agency positions under the jurisdiction of SPB?
 - a. Identify any positions not governed by SPB.

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.20.52
SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	EXPENDITURES - TRAVEL	REVISION NUMBER 99-001

EXPENDITURES - TRAVEL

1. Has the agency established travel policies and procedures in addition to those set forth by DFA?
 - a. What additional policies and guidelines have been approved?
2. Describe any control procedures in place to ensure that only authorized individuals receive travel reimbursement.
3. Are all requests for reimbursement submitted on the standard form prescribed by DFA?
4. Are advances granted only for out-of-state travel?
5. Who approves the following:
 - a. Out-of-state travel?
 - b. Travel advances?
6. What procedures are in place to ensure that any unused travel advance is refunded to the agency?
7. Identify personnel responsible for performing the following:
 - a. Verifying the clerical accuracy of the TV.
 - b. Ensuring that amounts claimed are reasonable and within established guidelines.
 - c. Determining that vouchers are complete with all required documentation attached.
 - d. Approving the TV for payment.
8. Are those persons responsible for performing the above duties allowed to verify or approve their own TV?
9. Describe the method in which travel requisitions/checks are processed including the personnel responsible.
10. How often are TV processed and paid?
11. List those individuals authorized to sign travel requisitions/checks.

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12. Identify personnel responsible for:
 - a. Determining expenditure classification.
 - b. Recording travel transactions in the cash disbursements journal.
 - c. Posting to the general ledger.
13. How often are transactions posted to the accounting records?
14. Document any supervisory review procedures to ensure that postings to the general ledger are correct.
15. Are controls in place to ensure that the requisition and warrant are in agreement after being processed by BFC?
 - a. Who determines that they are in agreement?
16. Describe the procedures in which financial transactions are summarized and reported on the GAAP packages. Document key personnel.
17. Does the agency allow payment of taxable meals?
 - a. If so, are these meals recorded on the W-2?
18. Does the agency provide/require use of road vehicle for commuting or personal?
 - a. If the employee is not an elected official and the vehicle is used only for commuting to and from work, is the flat rate for use of the vehicle included on the employee's W-2?
 - b. If the employee is an elected official or the vehicle is used for personal reasons, does the agency report the fair market value of the vehicle reported on the employee's W-2?
Note - The employee must keep a record of the personal use miles for the vehicle.
19. Identify the types of material misstatements that could occur:
 - a. Payments are recorded at incorrect amount.
 - b. Travel recorded in wrong fund and/or major object code.
 - c. Travel recorded in wrong period.
 - d. Travel payments are not recorded in the accounting records.
 - e. Travel is not reimbursed in accordance with allowable rates.
 - f. Travel advances are not being handled correctly.

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.20.53
SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	EXPENDITURES - CONTRACTUAL SERVICES	REVISION NUMBER 99-001

EXPENDITURES - CONTRACTUAL SERVICES

1. List the types of contractual services purchased by the agency. Exclude the normal and customary services such as telephones, utilities and repairs.
2. Are leases of land, buildings or office space, which are not state-owned property, approved by the Division of General Services, DFA?
 - a. If so, who is responsible for obtaining this approval?
 - b. Document that Division of General Services' approval has been obtained as required.
3. Are leases of equipment approved by the Office of Purchasing and Travel?
 - a. Who is responsible for obtaining this approval?
4. Identify personnel responsible for preparing and submitting the "Requests for Contract Personnel Services Approval" form to SPB.
5. Describe the control procedures in place to ensure that contracts and/or lease agreements exist when necessary.
6. Identify the agency personnel authorized to approve contracts and/or lease agreements.
7. Who is responsible for maintaining copies of all contracts and lease agreements?
8. Is the agency currently participating in a cafeteria plan?
9. If the cafeteria plan allows for salary reductions, such as dependent care and unreimbursed medical expenses, has the agency established a bank account in which these deductions are deposited?
 - a. Was authorization for the bank account obtained from the State Treasurer/Fiscal Officer?
10. If the agency has established a bank account, identify personnel responsible for:
 - a. Ensuring that the administrator contract is approved by the State Auditor's Office.
 - b. Reviewing and approving the plan administrator's claim for reimbursement.
 - c. Authorizing, by proper signature, payment from the account to the plan administrator.
 - d. Verifying that any funds remaining in the account at the close of the plan year revert to the fund from which the funds were withheld.

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SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	EXPENDITURES - CONTRACTUAL SERVICES	REVISION NUMBER 99-001

11. Identify personnel responsible for performing the following:
 - a. Verifying the clerical accuracy of the invoice.
 - b. Ensuring that amounts charged are reasonable and in accordance with contract specifications, if applicable.
 - c. Approving the invoice for payment.
 - d. Determining the expenditure classification.
12. What evidence is present to indicate that the invoice was properly approved?
13. Describe the method in which contractual requisitions/checks are processed including the personnel responsible.
14. List those individuals authorized to sign requisitions/checks for contractual expenditures.
 - a. Is a review of the invoice performed by the person signing the requisition/check?
15. Identify personnel responsible for:
 - a. Recording contractual transactions in the cash disbursements journal.
 - b. Posting to the general ledger.
16. How often are transactions posted to the accounting records?
17. Document any supervisory review procedures to ensure that postings to the general ledger are correct.
18. Are controls in place to ensure that the requisition and warrant are in agreement after being processed by BFC?
 - a. Who determines that they are in agreement?
19. Describe the procedures in which financial transactions are summarized and reported on the GAAP packages. Document key personnel.
20. What weaknesses in internal control are perceived from the above internal controls?

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21. Identify the types of material misstatements that could occur:
- a. Payments are recorded at incorrect amount.
 - b. Payments are recorded in wrong fund and/or major object code.
 - c. Payments are recorded in wrong period.
 - d. Payments are not recorded in the accounting records.
 - e. Payments are not in accordance with contract specifications.
 - f. Other.
22. Describe any policies and procedures established by the agency to prevent or detect material misstatements.

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.20.54
SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	EXPENDITURES - COMMODITIES	REVISION NUMBER 99-001

EXPENDITURES - COMMODITIES

1. Does the agency comply with guidelines set forth by the Office of Purchasing and Travel?
2. What procedures does the agency utilize to obtain the best possible price for items not subject to competitive bidding requirements?
3. For items requiring competitive bidding, describe the procedures established over the opening and awarding of bids.
4. Who is responsible for preparing and submitting P-1 forms as required by the Office of Purchasing and Travel?
5. Identify personnel responsible for performing the following:
 - a. Verifying the clerical accuracy of the invoice.
 - b. Ensuring that amounts charged are reasonable and in accordance with state contract prices.
 - c. Approving the invoice for payment.
 - d. Determining the expenditure classification.
6. What evidence is present to indicate that the invoice was properly approved?
7. Describe the method in which requisitions/checks for commodities are processed including the personnel responsible.
8. List those individuals authorized to sign requisitions/checks for commodities.
 - a. Is a review of the invoice performed by the person signing the requisitions/check?
9. Identify personnel responsible for:
 - a. Recording commodity transactions in the cash disbursements journal.
 - b. Posting to the general ledger.
10. How often are transactions posted to the accounting records?
11. Document any supervisory review procedures to ensure that postings to the general ledger are correct.
12. Are controls in place to ensure that the requisition and warrant are in agreement after being processed by BFC?
 - a. Who determines that they are in agreement?

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13. Describe the procedures in which financial transactions are summarized and reported on the GAAP packages. Document key personnel.
14. Describe any weaknesses that you see in the internal controls as described above.
15. Identify the types of material misstatements that could occur:
 - a. Payments are recorded at incorrect amount.
 - b. Payments are recorded in wrong fund and/or major object code.
 - c. Payments are recorded in wrong period.
 - d. Payments are not recorded in the accounting records.
 - e. Payments are not in accordance with contract specifications.
 - f. Other.
16. Describe the policies and procedures established by the agency to prevent or detect these material misstatements.

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.20.55
SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	EXPENDITURES - CAPITAL OUTLAY	REVISION NUMBER 99-001

EXPENDITURES - CAPITAL OUTLAY

1. Does the agency comply with guidelines set forth by the Office of Purchasing and Travel?
2. Describe the procedures utilized by the agency to obtain the best possible price for items not subject to competitive bidding requirements.
3. For items requiring competitive bidding, describe the procedures established over the opening and awarding of bids.
4. Who is responsible for preparing and submitting P-1 forms as required by the Office of Purchasing and Travel?
5. Identify personnel responsible for performing the following:
 - a. Verifying the clerical accuracy of the invoice.
 - b. Ensuring that amounts charged are reasonable and in accordance with applicable P-1 and CP-1 forms.
 - c. Approving the invoice for payment.
 - d. Determining the expenditure classification.
6. What evidence is present to indicate that the invoice was properly approved?
7. Describe the method in which requisitions/checks for capital outlay are processed including the personnel responsible.
8. List those individuals authorized to sign requisitions/checks for capital outlays.
 - a. Is a review of the invoice performed by the person signing the requisition/check?
9. Identify personnel responsible for:
 - a. Recording capital outlay transactions in the cash disbursements journal.
 - b. Posting to the general ledger.
10. How often are transactions posted to the accounting records?
11. Document any supervisory review procedures to ensure that postings to the general ledger are correct.
12. Are controls in place to ensure that the requisition and warrant are in agreement after being processed by BFC?

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13. Describe the procedures in which financial transactions are summarized and reported on the GAAP packages. Who are the key personnel?
14. Are capital outlay expenditures per agency books reconciled with purchase additions per the Analysis of Changes in General Fixed Assets form?
 - a. If so, who performs this procedure?
15. Review the internal controls described above and document any weaknesses noted.
16. Identify the types of material misstatements that could occur:
 - a. Payments are recorded at incorrect amount.
 - b. Payments are recorded in wrong fund and/or major object code.
 - c. Payments are recorded in wrong period.
 - d. Payments are not recorded in the accounting records.
 - e. Payments are not in accordance with P-1 and CP-1.
 - f. Other.
17. Describe the policies and procedures established by the agency to prevent or detect these material misstatements.

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.20.56
SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	EXPENDITURES - SUBSIDIES, LOANS AND GRANTS	REVISION NUMBER 99-001

EXPENDITURES - SUBSIDIES, LOANS AND GRANTS

1. Identify personnel responsible for performing the following:
 - a. Verifying the clerical accuracy of the supporting documentation.
 - b. Ensuring that amounts charged are reasonable and in accordance with grant specifications, if applicable.
 - c. Approving the supporting documentation for payment.
 - d. Determining the expenditure classification.
2. What evidence is present to indicate that the invoice was properly approved?
3. Describe the method in which requisitions/checks for subsidies, loans and grants are processed including the personnel responsible.
4. List those individuals authorized to sign requisitions/checks for subsidies, loans and grants.
 - a. Is a review of the supporting documentation performed by the person signing the requisition/check?
5. Identify personnel responsible for:
 - a. Recording subsidies, loans and grants transactions in the cash disbursements journal.
 - b. Posting to the general ledger.
6. How often are transactions posted to the accounting records?
7. Document any supervisory review procedures to ensure that postings to the general ledger are correct.
8. Are controls in place to ensure that the requisition and warrant are in agreement after being processed by BFC?
9. Describe the procedures in which financial transactions are summarized and reported on the GAAP packages. Document key personnel.
10. Since subsidies, loans and grants are unique to each agency, document any additional controls established.
11. Review the internal controls described above and document any weaknesses noted.

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SUB-SECTION	EXPENDITURES - SUBSIDIES, LOANS AND GRANTS	REVISION NUMBER 99-001

12. Identify the types of material misstatements that could occur:
- a. Payments are recorded at incorrect amount.
 - b. Payments are recorded in wrong fund and/or major object code.
 - c. Payments are recorded in wrong period.
 - d. Payments are not recorded in the accounting records.
 - e. Payments are not in accordance with grant specifications.
 - f. Other.
13. Describe the policies and procedures established by the agency to prevent or detect these material misstatements.

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.20.57
SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	EXPENDITURES - OTHER	REVISION NUMBER 99-001

EXPENDITURES - OTHER

Agencies may have expenditures which are unique to that agency. An internal control questionnaire specific to any additional expenditure accounts (including transfers) should be developed for those expenditure accounts which are significant.

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.20.60
SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	DATA PROCESSING GENERAL CONTROLS	REVISION NUMBER 99-001

DATA PROCESSING GENERAL CONTROLS

1. Does the data processing department have adequate organizational status to remain independent of the departments it serves?
2. Have written job descriptions been prepared for all positions in the department?
3. Have procedures been established by which the qualifications of data processing employees to perform their functions can be determined?
4. Are proof and control functions performed by personnel other than operators and programmers?
5. Are the duties of computer operators and programmers separate and distinct?
6. Are operators assigned to particular jobs or applications periodically rotated?
7. Are operators required to take vacations?
8. Are employees in data processing prohibited from initiating transactions and master file changes?
9. Are departments that initiate master file changes provided with a report showing changes actually made?
10. Are blank checks used by the data processing department controlled by someone independent of operators?
11. Have formal documentation standards and procedures been established?
12. Is documentation of new systems and programs reviewed for adequacy at completion and periodically to determine it is complete and current?
13. Have programming techniques and standards been developed?
14. Are standardized operator instructions and run descriptions prepared and made available to machine operators?
15. Do run books contain information explaining the purpose of each run?
16. Do run books identify machine system components to be used?
17. Do run books identify input and output forms and media to be used?
18. Do run books contain detailed set-up and end-of-run instructions?

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SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	DATA PROCESSING GENERAL CONTROLS	REVISION NUMBER 99-001

19. Have procedures been established to monitor operator's adherence to prescribed operating procedures?
20. Are adequate computer operation logs maintained?
21. Is a schedule prepared of applications to be processed and reports and documents to be produced?
22. Are output reports and documents reviewed for reasonableness prior to distribution?
23. Are control procedures over report distribution adequate?
24. Have formal program testing procedures been established to check the functioning of new applications and revisions to existing programs?
25. Is a file of test data prepared and maintained for each new or revised program?
26. Are programmers prohibited from testing new or revised programs using live data files?
27. Have procedures been established for authorizing, approving and testing program changes?
28. Have procedures been established to prohibit machine operators and other unauthorized personnel from having access to program documentation?
29. Have procedures been established for storing and issuing magnetic tapes, disks and program documentation?
30. Have these responsibilities been assigned to a librarian?
31. Have arrangements been made for backup processing facilities at another location in the event of a prolonged equipment breakdown?
32. Have written procedures been prepared for using these backup facilities?

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.20.61
SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	ORGANIZATION AND ADMINISTRATION	REVISION NUMBER 99-001

ORGANIZATION AND ADMINISTRATION

1. Has one person been assigned responsibility for overseeing all the agency's data processing activity?
2. Have policies been established on the care and handling of the microcomputer and related hardware and software, including:
 - a. Prohibition of eating, drinking, and smoking in the area around the micro?
 - b. Detailed diskette handling procedures?
 - c. Periodic cleaning and degaussing of diskette read/write heads?
 - d. Periodic vacuuming of the printer, CPU air intake vents and keyboard?
3. Are two or more people trained in the use of all hardware and each software package?
4. Is there rotation of duties so a second person operates the system regularly?
5. Is use of the microcomputer restricted to employees performing assigned duties and use for games or other personal uses prohibited?
6. Have employees been warned about the agency's potential liability for illegal copying of purchased software and has such copying been prohibited?
7. Are duties assigned so that, to the extent possible, control totals for entered data are compared to output control totals by someone other than the person who keyed in the data?
8. If records of assets are maintained on the microcomputer, do employees with access to the microcomputer not also have access to those assets?

TOPIC	INTERNAL AUDITING	SUB-SECTION 31.20.62
SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	ACQUISITION OF HARDWARE AND SOFTWARE	REVISION NUMBER 99-001

ACQUISITION OF HARDWARE AND SOFTWARE

1. Has a clear policy been established on acquisition of hardware?
 - a. Does it require compatibility among all agency acquisitions so that backup and multiple use of data files are possible?
 - b. Are all requests funneled through a person who coordinates compatibility, negotiation with vendors, etc?
 - c. Is a cost-benefit analysis required before acquisition so that equipment meets specific needs rather than simply a desire to have the latest equipment?
2. Has a clear policy been established on the acquisition of software?
 - a. Does it require compatibility so that everyone uses the same spreadsheet or word processing software?
 - b. Are all requests directed to one person who coordinates compatibility, negotiates with vendors and avoids software packages with redundant capabilities?
3. Is a central record maintained of all acquired software and reviewed periodically so that:
 - a. all users know that software is available;
 - b. over-acquisition syndrome (getting all the latest software) can be detected; and
 - c. software with overlapping capability, e.g., having both Excel and Lotus 1-2-3, can be detected?
4. Is all acquired software, i.e., original diskettes:
 - a. copied immediately and not used for processing;
 - b. stored in a secure (locked) location with management approval required for additional copying; and
 - c. tested before being used for normal processing?

TOPIC	INTERNAL AUDITING	SUB-SECTION 31.20.63
SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	SOFTWARE MAINTENANCE AND DOCUMENTATION	REVISION NUMBER 99-001

SOFTWARE MAINTENANCE AND DOCUMENTATION

1. For spreadsheet software applications, (templates) are:
 - a. formulas printed out and reviewed by someone other than the developer before use;
 - b. saved and filed; and
 - c. designed with an "assumptions" area to minimize changes to formulas as data are changed?
2. For all significant applications, is the following documentation prepared and stored in a secure location:
 - a. Overview of functions and processing?
 - b. Definitions of fields on data file?
 - c. Identification of programs and their tasks?
 - d. Copies of screen and report formats?
 - e. User instructions, including data entry requirements, sample source documents, and error message explanations?

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SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	OPERATIONS	REVISION NUMBER 99-001

OPERATIONS

1. Has a written schedule of processing for each day of the week been prepared?
2. Is the schedule in proper processing sequence, e.g., cash receipts before customer invoices?
3. Is the schedule photocopied, dated daily and initialed as processing is completed?
4. Does scheduling provide for the addition of processing done only monthly, quarterly or annually?
5. Are separate areas around the microcomputer designated and used for input and output, e.g., input and setup materials should be in a different area than output diskettes?
6. Are diskettes filed promptly after processing?
7. Is the diskette filing system obvious enough to permit filing by someone other than the person normally responsible?
8. Are diskettes physically labeled with the following:
 - a. Name of file?
 - b. Date created (and end of period date if appropriate)?
 - c. Operator?
 - d. Drive on which created?
 - e. Control totals for data entry diskettes?

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.20.65
SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	ACCESS TO HARDWARE, SOFTWARE AND FILES	REVISION NUMBER 99-001

ACCESS TO HARDWARE, SOFTWARE AND FILES

1. Are the microcomputer and related hardware physically secure?
 - a. In a room that is locked when the microcomputer is not in use?
 - b. If not in a locked room, is the microcomputer bolted or chained down and the cover of the processing unit locked?
2. Are individuals authorized to use the microcomputer identified and is the policy to challenge use by anyone else clear?
3. Is the microcomputer located in a place that permits management supervision?
4. Are diskettes stored in a secure (locked) location?
5. Is password software used to the extent possible to limit access to software and files?
 - a. Has the availability of optional password or encryption software been investigated and evaluated?
 - b. Are existing password capabilities used effectively, e.g., separate passwords for individual users, changed regularly, especially when personnel changes, and kept secret?

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.20.66
SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	BACKUP AND RECOVERY	REVISION NUMBER 99-001

BACKUP AND RECOVERY

1. Are software and files backed up (copied) regularly, including the following:
 - a. Operating system?
 - b. Application software?
 - c. Data files?
2. Are transactions and other input necessary to update the backup copy of a file saved until a new backup copy is created?
3. Have critical files been identified, an extra copy made and the extra stored in a secure, separate location (safe deposit box, etc.)?
4. Is the frequency of backup evaluated on an application by application basis so that it can be related to the difficulty and importance of recovery and reprocessing?
5. Are backup files clearly labeled and stored separately from regular files?
6. Are recovery procedures well-defined with an appropriate trail maintained of processing since the last backup?
7. Is more than one generation of a file retained in case both the current and backup copy experience the same problem?

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.20.67
SECTION	INTERNAL CONTROL QUESTIONNAIRE	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	CONTINGENCY PLANNING	REVISION NUMBER 99-001

CONTINGENCY PLANNING

1. Has a list been compiled of whom to call when a particular type of problem occurs?
 - a. Repair/maintenance service?
 - b. Vendors for equipment replacement?
 - c. Software vendors?
 - d. Location with similar or same equipment?
2. Has a backup location with similar equipment been identified for emergency processing? Possibilities would be the following:
 - a. Other microcomputers within the company.
 - b. A neighboring company or fellow user group member.
 - c. Computer vendor or store.
 - d. Service Center.
3. Is there a written agreement with the backup location to prevent misunderstandings when the need for emergency processing arises?
4. Is insurance coverage adequate for equipment, software and costs to recover from a disaster?

TOPIC	INTERNAL AUDITING	SUB-SECTION 31.40.10
SECTION	CONTROLS	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	STANDARD FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING	REVISION NUMBER 99-001

STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities.

The internal auditing activity is an integral part of the organization and functions under the policies established by management. The statement of purpose, authority, and responsibility (charter) for the internal auditing department, approved by management, should be consistent with the Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors.

The implementation of the Standards will be governed by the environment in which the internal auditing activity carries out its assigned responsibilities. But compliance with the concepts of the Standards is essential before the responsibilities of internal auditors can be met.

The Standards generally provide that:

1. Auditors should be independent of the activities they audit.
2. Internal audits should be performed with proficiency and due professional care.
3. The scope of the internal audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.
4. Audit work should include planning the audit, examining and evaluating information, communicating results and following up.
5. The director of internal auditing should properly manage the internal auditing department.

The Standards in their entirety are available from the Institute of Internal Auditors, Inc., 249 Maitland Avenue, Altamonte Springs, Florida 32701-4201. Their telephone number is (407) 830-7600.

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SECTION	CONTROLS	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	GENERALLY ACCEPTED AUDITING STANDARDS FOR GOVERNMENTAL ORGANIZATIONS	REVISION NUMBER 99-001

GENERALLY ACCEPTED AUDITING STANDARDS FOR GOVERNMENTAL ORGANIZATIONS

Generally accepted auditing standards are prescribed in Government Audit Standards published by the Comptroller General of the United States. Knowledge of these standards, while not significantly different from the internal audit standards, may enhance the acceptability of internal audit work in a coordinated audit effort with external auditors. Formal acknowledgment of these standards in an audit report may be required when the internal auditor is performing work for external auditors or a federal agency. The Standards for the Professional Practice of Internal Auditing are referenced in the Government Auditing Standards.

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AUDIT PROGRAM

The audit procedures to be applied will vary according to the size of the organization and the audit objective. The auditor may want to audit only selected accounts. The audit program is a suggestion of audit procedures which might be used in some situations. The auditor should modify the following procedures to meet the particular objective of the internal audit:

I. Cash

A. The auditor's objectives in the examination of cash are to determine that:

1. Internal control over cash transactions is adequate.
2. The recorded cash is valid (existence and rights).
3. All cash accounts are recorded (completeness).
4. Cash schedules are mathematically correct and agree with general ledger accounts (clerical accuracy).
5. The presentation and disclosure of cash, including restricted funds is adequate.
6. The agency is in compliance with applicable state and federal laws and regulations and the MAAPP Manual.

B. Consider internal control for cash

1. Obtain an understanding of internal control for cash.
2. Assess control risk and design additional tests of controls for cash.
3. Perform tests of controls for those controls which the auditor plans to rely upon to restrict the assessment of control risk, and reduce the extent of substantive testing, such as:
 - a. Prove footings of cash journals and trace postings to ledger accounts.
 - b. Compare the detail of a sample of cash receipts listings to the cash receipts journal, accounts receivable postings, and authenticated deposit slips.
 - c. For state treasury funds, compare receipts journal, appropriation bill, and receipt warrant.
 - d. Compare the detail of a sample of recorded disbursements in cash payments journal to accounts payable postings, purchase orders, receiving reports, invoices, and paid checks or warrants.

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4. Reassess control risk and design substantive tests for cash.

C. Perform substantive tests of cash transactions and balances.

1. Obtain analyses of cash balances and reconcile to the general ledger.
2. Send confirmation letters to banks to verify amounts on deposit.
3. Obtain or prepare reconciliations of bank accounts as of the balance sheet date and consider need to reconcile bank activity for additional months.
4. Obtain a cutoff bank statement containing transactions of at least seven business days subsequent to the balance sheet date.
5. Count and list cash on hand.
6. Verify the cutoff of cash receipts and cash disbursements.
7. Trace all bank transfers for last week of audit year/period and first week of the following year/period.
8. Investigate any checks representing large or unusual payments to related parties.
9. Evaluate proper financial statement presentation and disclosure of cash.
10. Verify all applicable state and federal laws and regulations and the MAAPP Manual have been followed.

II. Investments

A. The auditor's objectives in the examination of investments are to determine that:

1. Internal control over investment transactions is adequate.
2. The recorded investment is valid (existence and rights).
3. All investments are recorded (completeness).
4. Investment schedules are mathematically correct and agree with general ledger accounts (clerical accuracy).
5. The presentation and disclosure of investments is adequate.
6. The agency is in compliance with applicable state and federal laws and regulations and the MAAPP Manual.

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- B. Consider internal control for investments.
 - 1. Obtain an understanding of internal control for investments.
 - 2. Assess control risk and design additional tests of controls for investments.
 - 3. Perform tests of controls for those controls which the auditor plans to rely upon to restrict the assessment of control risk and reduce the extent of substantive testing.
 - 4. Reassess control risk and design substantive tests for investments.
- C. Perform substantive tests of investment transactions and balances.
 - 1. Obtain analyses of investment balances and reconcile to general ledger.
 - 2. Send confirmations to banks to verify amounts invested and terms of investments.
 - 3. Obtain or prepare reconciliation of accounts as of balance sheet date.
 - 4. Count securities and check to schedule.
 - 5. List important papers in vault or safe.
 - 6. Accrue interest.
 - 7. Account for interest.
 - 8. Account for other income and accruals.
 - 9. Verify all applicable state and federal laws and regulations and the MAAPP Manual have been followed.

III. Receivables

- A. The auditors' objectives are to determine that:
 - 1. Internal control over receivables is adequate.
 - 2. The recorded receivables are valid (existence and rights).
 - 3. All receivables are recorded (completeness).
 - 4. Receivable records and supporting schedules are mathematically correct and agree with general ledger accounts (clerical accuracy).

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5. The valuation of receivables approximates their realizable values.
 6. The presentation and disclosure of receivables is adequate, including the separation of receivables into appropriate categories, and adequate reporting of any receivables pledged as collateral and related party receivables.
 7. The agency is in compliance with applicable state and federal laws and regulations and the MAAPP Manual.
- B. Consider internal control for receivables and sales.
1. Obtain an understanding of internal control for receivables and sales.
 2. Assess control risk and design additional tests of controls for receivables and sales.
 3. Perform additional tests of controls for those controls which the auditor plans to rely upon to restrict the assessment of control risk and, thus, reduce the extent of substantive testing, such as:
 - a. Examine significant aspects of a sample of sales transactions.
 - b. Compare a sample of shipping documents to related sales invoices.
 - c. Review the use and authorization of credit memoranda.
 - d. Reconcile selected cash register tapes and sales tickets with sales journals.
 4. Reassess control risk and design substantive tests for receivables and sales.
- C. Perform substantive tests of receivables and sales transactions.
1. Obtain an aged trial balance of trade accounts receivables and analyses of other accounts receivable and reconcile to ledgers.
 2. Obtain analyses of notes receivable and related interest.
 3. Inspect notes on hand and confirm those not on hand with holders.
 4. Confirm receivables with debtors.
 5. Review the year-end/period cutoff of sales transactions.
 6. Perform analytical procedures for accounts receivable, sales, notes receivable, and interest revenue.

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7. Verify interest earned on notes and accrued interest receivable.
8. Determine adequacy of allowance for uncollectible accounts.
9. Ascertain whether any receivables have been pledged.
10. Investigate fully any notes or accounts receivable from related parties.
11. List unusually large accounts.
12. Review subsequent collections.
13. Evaluate financial statement presentation and disclosure of receivables and sales.
14. Review propriety of client's accounting for transactions resulting in receivables and sales.
15. Verify all applicable state and federal laws and regulations and the MAAPP Manual have been followed.

IV. Inventories and Cost of Goods Sold

- A. The auditors' objectives in the examination of inventories (and cost of goods sold) are to determine that:
 1. Internal control over inventories is adequate.
 2. The recorded inventories are valid (existence and rights).
 3. All inventory is recorded (completeness).
 4. Inventory records and supporting schedules are mathematically correct and agree with general ledger accounts (clerical accuracy).
 5. The valuation of inventories approximate the lower-of-cost-or-market method.
 6. The presentation and disclosure of inventories is adequate.
 7. The agency is in compliance with applicable state and federal laws and regulations and the MAAPP Manual.
- B. Consider internal control for inventories and cost of goods sold.
 1. Obtain an understanding of internal control for inventories and cost of goods sold.

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2. Assess control risk and design additional tests of controls for inventories and cost of goods sold.
 3. Perform additional tests of controls. For controls which the auditor plans to rely upon to restrict the assessment of control risk, and thus, reduce the extent of substantive testing, perform tests of controls such as:
 - a. Examining significant aspects of a sample of purchase transactions.
 - b. Testing the cost accounting system.
 4. Reassess control risk and design substantive tests for inventories and cost of goods sold to plan the audit and to assess control risk.
- C. Perform substantive tests of inventories and cost of goods sold transactions.
1. Obtain listings of inventory and reconcile to ledgers.
 2. Evaluate the client's planning of physical inventory.
 3. Observe the taking of physical inventory and make test counts.
 4. Review the year-end/period cutoff of purchases and sales transactions.
 5. Obtain a copy of the completed physical inventory, test its clerical accuracy, and trace test counts.
 6. Review inventory quality and condition.
 7. Evaluate the bases and methods of inventory pricing.
 8. Test the pricing of inventories.
 9. Perform analytical procedures.
 10. Determine whether any inventories have been pledged and review purchase and sales commitments.
 11. Evaluate financial statement presentation of inventories and cost of goods sold, including the adequacy of disclosure.
 12. Verify all applicable state and federal laws and regulations and the MAAPP Manual have been followed.

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V. General Fixed Assets

A. The auditors' objectives are to determine that:

1. Internal control over property, plant and equipment is adequate.
2. The recorded property, plant and equipment is valid (existence and rights).
3. All property, plant and equipment is recorded (completeness).
4. Property, plant and equipment records and supporting schedules are mathematically correct and agree with general ledger accounts (clerical accuracy).
5. The valuation of property, plant and equipment is proper.
6. The presentation and disclosure of property, plant and equipment, including disclosure of depreciation methods, is adequate.
7. The agency is in compliance with applicable state and federal laws and regulations and the MAAPP Manual.

B. Consider internal control for property, plant and equipment.

1. Obtain an understanding of the internal control for property, plant and equipment.
2. Assess control risk for each of the major financial statement assertions about property, plant and equipment, and design additional tests of controls.
3. Perform additional tests of controls for those controls on which the auditor plans to rely to reduce the assessment of control risk and, thus, the extent of substantive testing.
4. Reassess control risk for each of the major financial statement assertions about property, plant and equipment based on the result of test of controls, and design substantive tests.

C. Perform substantive tests of property, plant and equipment, and related revenue and expenses.

1. Obtain a summary analysis of changes in property owned and reconcile to ledgers.
2. Vouch additions to property during the year.
3. Make physical inspection of major acquisitions of plant and equipment.

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4. Analyze repair and maintenance expense accounts.
5. Investigate the status of property not in current use.
6. Test the provision for depreciation.
7. Verify retirements of property during the year.
8. Verify legal ownership of property, plant and equipment.
9. Review rental revenue from land, buildings and equipment owned but leased to others.
10. Examine lease agreements on property, plant and equipment leased to and from others.
11. Perform analytical procedures for property, plant and equipment.
12. Evaluate financial statement presentation and disclosure for plant assets and for related revenue and expenses.
13. Verify all applicable state and federal laws and regulations and the MAAPP Manual have been followed.

VI. Accounts Payable

- A. The auditors' objectives in the examination of accounts payable are to determine that:
 1. Internal control over accounts payable and the acquisition and payment cycle is adequate.
 2. The recorded accounts payable are valid (occurrence and obligations).
 3. All accounts payable are recorded (completeness).
 4. Accounts payable schedules are mathematically correct and agree with general ledger accounts (clerical accuracy).
 5. The valuation of accounts payable is proper.
 6. The presentation and disclosure of payables is adequate.
 7. The agency is in compliance with applicable state and federal laws and regulations and the MAAPP Manual.
- B. Consider internal control for accounts payable.
 1. Obtain an understanding of the internal control for accounts payable.

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2. Assess control risk for each of the major financial statement assertions about accounts payable, and design additional tests of controls.
3. Perform additional tests of controls for those controls which the auditor plans to rely on to reduce the assessed level of control risk and, thus, the extent of substantive testing.
4. Reassess control risk for each of the major financial statement assertions about accounts payable based on the results of tests of controls, and design substantive test.

C. Substantive tests of accounts payable transactions and balances.

1. Obtain or prepare a trial balance of accounts payable as of the balance sheet date and reconcile with the general ledger.
2. Vouch balances payable to selected creditors by inspection of supporting documents.
3. Reconcile liabilities with monthly statements from creditors.
4. Confirm accounts payable by direct correspondence with vendors.
5. Perform analytical procedures for accounts payable and related accounts.
6. Search for unrecorded accounts payable.
7. Search for accounts payable to related parties.
8. Evaluate proper balance sheet presentation and disclosure of accounts payable.
9. Verify all applicable state and federal laws and regulations and the MAAPP Manual have been followed.

VII. Expenditures

A. The auditors' objective in the examination of expenditures are to determine that:

1. Internal control over expenditure transactions is adequate.
2. The recorded expenditure is valid (occurrence and obligations).
3. All expenditures are recorded (completeness).
4. Expenditures are mathematically correct and agree with general accounts (clerical accuracy).

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5. The presentation and disclosure of expenditures is adequate.
 6. The agency is in compliance with applicable state and federal laws and regulations and the MAAPP Manual.
- B. Consider internal control for expenditures.
1. Obtain an understanding of internal control for expenditures.
 2. Assess control risk and design additional tests of controls for expenditures.
 3. Perform tests of controls for those controls which the auditor plans to rely upon to restrict the assessment of control risk, and reduce the extent of substantive testing.
 4. Reassess control risk and design substantive tests for expenditures to plan the audit and to assess control risk.
- C. Perform substantive tests of expenditures.
1. Perform analytical procedures related to the account.
 - a. Develop an expectation of the account balance.
 - b. Determine the amount of difference from the expectation that can be accepted without investigation.
 - c. Investigate significant deviations from the expected account balance.
 2. Obtain or prepare analyses of selected expenditure accounts.
 - a. Check totals in journals to ledgers.
 - b. Test extensions on invoices.
 - c. Check invoices, review name, date approval and distribution.
 - d. Compare with PO and receiving record.
 - e. Review accounting distribution.
 - f. Check log of inventory returned for missing or out of sequence items.

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- g. Compare receipt of inventory to be returned to shipping record.
 - h. Compare inventory to be returned to original invoice.
 - i. Check total returns to ledgers.
- 3. Obtain or prepare analyses of critical expenditures.
- 4. Verify all applicable state and federal laws and regulations and the MAAPP Manual have been followed.

VIII. Payrolls

- A. The auditors' objectives in the examination of payrolls are to determine that:
 - 1. Internal control over payroll transactions is adequate.
 - 2. The recorded expenditure is valid (occurrence and obligations).
 - 3. All salaries and wages are recorded (completeness).
 - 4. Gross payroll and net pay are mathematically correct and agree with ledger accounts (clerical accuracy).
 - 5. The presentation and disclosure of payroll is adequate.
 - 6. The agency is in compliance with applicable state and federal laws and regulations and the MAAPP Manual.
- B. Consider internal control for payroll.
 - 1. Obtain an understanding of the internal control for payrolls.
 - 2. Assess control risk and design additional tests of controls for payroll.
 - 3. Perform tests of controls for those controls which the auditor plans to rely upon to restrict the assessment of control risk and reduce the extent of substantive testing.
 - 4. Reassess control risk and design substantive tests for expenditures to plan the audit and to assess control risk.
- C. Perform substantive tests of payroll.
 - 1. Perform tests of transactions for selected pay periods, including the following specific procedures:
 - a. Trace names and wage or salary rates to records maintained by the personnel department.

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- b. Trace time shown on payroll to time cards and time reports approved by supervisors.
 - c. Determine basis of deductions from payroll and compare with records of deduction authorized by employees.
 - d. Test extensions and footing of payroll.
 - e. Compare total of payroll with total of payroll checks issued.
 - f. If payroll is paid by check, compare paid checks with payroll and compare endorsements to signatures on withholding tax exemption certificates.
2. Observe the use of time and attendance sheets.
3. Plan a surprise observation of one of the paycheck distributions, including control of payroll records and an accounting for all employees listed.
4. Determine that payrolls for the year do not exceed the number of pay periods and that all payrolls have been properly approved.
5. Obtain or prepare a summary of compensation of top management staff for the year and trace to state law, SPB authorization, or other authorization.
6. Investigate any extraordinary fluctuations in salaries and wages.
7. Test computations of compensation.
8. Test per diem earned.
9. Determine that federal and state tax withholding forms are properly completed and remitted on time.
10. Verify all applicable state and federal laws and regulations and the MAAPP Manual have been followed.

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.50.10
SECTION	MONITORING SUBGRANTEES	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	INTRODUCTION	REVISION NUMBER 99-001

INTRODUCTION

All granting agencies shall conduct at least one in-depth monitoring review of each of its subgrantees during the FY. The in-depth review shall include completion of the Fiscal and Administrative Monitoring Instrument. This monitoring instrument is prepared for use by the monitors of the operations of subgrantees which are using the Cost Reimbursement and Current Needs payment method. This section is prepared for monitoring of subgrantees who operate independent of the State Treasurer. Modifications should be made for those subgrantees where accounts are in the State Treasury.

Use of the Monitoring Instrument

This monitoring instrument is arranged in six sections, each dealing with a separate test necessary for proper fiscal/administrative monitoring. These tests are of:

- A. General Compliance,
- B. Cash Receipts,
- C. Non-payroll Cash Disbursements,
- D. Payroll Disbursements,
- E. Property and Equipment and
- F. General Administrative.

Each agency can add sections to the instrument to deal with specific areas pertaining to their subgrantees. In addition, current copies of the applicable Office of Management and Budget (OMB) Circulars should be available for reference during the review.

Each section is basically divided into three parts.

Part 1 gives the objectives for each review test and a detailed listing of the necessary steps for performing that particular testing procedure.

Part 2 gives an explanation of the elements found in the workpaper.

Part 3 shows an example of a workpaper for that particular test.

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SECTION	MONITORING SUBGRANTEES	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	GENERAL COMPLIANCE REQUIREMENTS	REVISION NUMBER 99-001

GENERAL COMPLIANCE REQUIREMENTS

Review Objective:

Several statutory and regulatory requirements are applicable to all or most federal assistance programs. The following procedures are tests of compliance with these general requirements.

Review Procedures:

1. Political Activity - Federal funds cannot be used for partisan political activity of any kind by any person or organization involved in the administration of federally-assisted programs. [Hatch Act (5USC 1505-1508) and intergovernmental Personnel Act of 1970 as amended by Title VI of Civil Service Reform Act (P.L. 95-454 Section 4728)].
 - a. Do the expenditures and related records reveal indications of lobbying activities, publications, or other materials intended for influencing legislation or similar type costs?
 - b. Identify through personnel and payroll records any persons whose responsibilities include political activity. If any are identified, are their personnel costs charged directly or indirectly to a federally-assisted program?

If either a or b above is answered with "YES", a finding of noncompliance with the provisions of the Hatch Act is indicated.

2. Davis-Bacon Act - When required by the federal grant program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction projects financed by federal assistance must be paid wages not less than those established for the locality of the project by the Secretary of Labor [40 Stat 1494, March 3, 1921, Chap. 411, (40 USC 276A-276A-5)].
 - a. Does the program under review involve construction activities?
 - b. If yes, do the construction contracts and subcontracts contain provisions requiring the payment of prevailing wages?
 - c. Does the subgrantee review its contractors and subcontractors for compliance with the Davis-Bacon Act?
 - d. Is the subgrantee's review of contractors/subcontractors adequate?
 - e. Obtain the local DOL wage determination and payroll lists from contractors/subcontractors. Are the wages paid by the contractor/subcontractor in conformance with the prevailing wage?

A "NO" answer to items b, c, d or e should be reported as a finding in the monitoring report.

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3. Civil Rights - No person shall, on the grounds of race, color, national origin, age, or handicap, be excluded from participation in or be subject to discrimination in any program or activity funded, in whole or in part, by federal funds. Discrimination on the basis of sex or religion is also prohibited in some federal programs. (Age - 42 USC 6106 et. seq.; Race - 42 USC 2000d; Handicap - 29 USC 794).

- a. Does the subgrantee have a formal policy of nondiscrimination?
- b. For subgrantees employing 15 or more persons, has a person been designated to oversee civil rights compliance? (This does not apply to OJT or Business Incentive subgrantees.)

A "NO" response to either of the above questions would be considered a finding of noncompliance.

4. Cash Management - Subgrantee financial management systems shall include procedures to minimize the time elapsed between the transfer of funds from the State and the disbursement of the funds by the subgrantee.

Each agency has different drawdown requirements; therefore, each should develop a review procedure for this section to test for compliance with cash management guidelines.

5. Relocation Assistance and Real Property Acquisition - Federal aid programs may require the acquisition of property by a public agency and subsequent displacement of households and businesses. Subgrantees acquiring property in the administration of federal aid must carry out certain actions systematically, e.g., have property appraised in presence of owner, review appraisals, set price and negotiate settlements. Similarly, when displacements (relocations) are involved, the subgrantee must, for example, provide assistance systematically in locating replacement housing, assure that it meets acceptable standards and maintain records on all acquisitions and displacements. [Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA)(P.L. 91-646)].

- a. Does the program under review involve acquisition of property or displacement of households or businesses?
- b. If yes, does the subgrantee have a system for compliance with relocation assistance and real property acquisition requirements and is that system adequate?

If the answer to item b is "NO", the subgrantee is not in compliance with this section.

6. Financial Reports - Subgrantees should submit to the granting agency certain reports.

- a. Are the procedures used by the subgrantee adequate to accurately complete the required reports?
- b. Are the reports filed in a timely fashion? Are the reports clerically correct and do all amounts compute? Are the reports signed by an authorized official?
- c. Do the amounts shown on the reports agree with the supporting documents used to complete the reports, i.e. agency records, worksheets, etc.?

A "NO" response to any of the above items should be reported as a non-compliance finding.

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.50.21
SECTION	MONITORING SUBGRANTEES	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	CASH RECEIPTS	REVISION NUMBER 99-001

CASH RECEIPTS

Review Objectives:

The principal review objectives are to corroborate or refute the following general attributes:

1. Cash which should have been received is, in fact, received.
2. Cash received is deposited promptly and intact.
3. Cash received is not in excess of immediate requirements.
4. Cash receipts are accurately recorded in the accounting records.
5. The accounting records for cash receipts agree with bank records of receipts.
6. Cash received on an "advance" basis should be deposited in an interest bearing account.

Review Procedures:

1. Enter information items suggested below onto a workpaper from proper sources.
2. Compare the receipt date (Item 6) with the deposit date (Item 7) to determine that the funds were deposited promptly. Review the cash balance approximately three days prior to the deposit and approximately three days after the deposit in the books to determine whether the cash requested and deposited was actually needed at that time. Cash balances should not build up for a long period of time as a result of cash drawn down from the granting agency.
3. Compare the receipt date (Item 6) with the posting date (Item 8) to determine that the receipt was recorded promptly. Examine the bank statement to determine that the account is an interest bearing account if the subgrantee is on the "Cash Advance" basis.
4. Note and identify any other receipts of the program under review.
5. Note any irregularities found by the review.

Cash Receipts Test Workpaper Items

NOTE: Information should be obtained from the granting agency administrative office.

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.50.21
SECTION	MONITORING SUBGRANTEES	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	CASH RECEIPTS	REVISION NUMBER 99-001

<u>Item Number</u>	<u>Item</u>	<u>Where Found</u>
1	Cash Request Number	Admin. Office Subgrantees Files
2	Cash Request Date	Admin. Office Subgrantees Files
3	Cash Request Amount	Admin. Office Subgrantees Files
4	Warrant Number	Admin. Office Subgrantees Files
5	Date Warrant Mailed	Admin. Office Subgrantees Files
6	Date Received by Subgrantee	Subgrantee Mail Log, Receipt Journal, or other Receipt Record
7	Date Deposited	Bank Statement and Validated Deposit Ticket
8	Date Posted to Records	Subgrantee Cash Receipts Journal or General Journal

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.50.22
SECTION	MONITORING SUBGRANTEES	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	NON - PAYROLL CASH DISBURSEMENTS	REVISION NUMBER 99-001

NON-PAYROLL CASH DISBURSEMENTS

Review Objectives:

Establish that:

1. Amounts charged to the program are allowable per the budget.
2. Expenditures are adequately supported by a third party document.
3. Expenditures are properly approved.
4. Expenditures are properly recorded on the books and properly reported to the granting agency.

Review Procedures:

1. Using the Check Register/Cash Disbursements Journal, determine the total number of cash disbursements for the review period.
2. Select a sampling percentage for the review. Generally, the smaller the number of transactions, the larger the percentage of transactions that are tested. For example, if there are 1300 checks written during the year, you would select a smaller percentage to be tested (20% possibly). If there are 300 checks written during the year, you would select a larger percentage to be tested (33% possibly). Also, a larger percentage should be chosen when the error rate is expected to be high. Supervisors should give some direction when the sampling interval is chosen.
3. Refer below to determine the sampling interval. Choose a random starting point and choose every:

20th item for a 5% sample
10th item for a 10% sample
5th item for a 10% sample
4th item for a 25% sample
3rd item for a 33% sample
2nd item for a 50% sample
4. Record suggested items 1 through 5 on workpaper. (See Non-Payroll Cash Disbursements Workpaper Items below.)
5. Answer the following questions and record the responses on the workpaper.
6. Is the amount charged to the program allowable per the approved subgrant budget? The cumulative amount charged to date must be checked to the budget for overruns.

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.50.22
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- a. Are the expenditure reports consistent with the general ledger and disbursements journal? Compare expenditure reports with the general ledger and disbursements journal. Compare the expenditures with the contract.
 - b. Are costs in excess of the budget in any category? Compare the expenditures with the amounts allowed in the contract.
 - c. Are they within the allowed flexibility?
 - d. Were any costs incurred outside the effective dates of the contract or grant?
 - e. Are accruals on the expenditure reports properly documented? Review documentation to support accruals.
7. For payments to contractor of the subgrantee, are the payments proper per the applicable contract? Examples of this would be contracts for legal services, accounting services, construction, etc.

All contracts should be tested to assure compliance with proper federal and state procurement standards.

8. Is the amount charged to the program allowable per OMB Circular A-87 (for local governments) or OMB Circular A-122 (for nonprofit organizations)? If these circulars do not apply to your specific program, test for compliance with the appropriate regulatory instrument. Refer to the appropriate regulation to determine allowability requirements.
9. Is the supporting documentation for the charge adequate?

Generally, adequate documentation consists of the **original** invoice for the charge. Certain charges, however, require additional documentation. These charges are:

<u>Cost Category</u>	<u>Additional Documentation Needed</u>
Travel	Hotel receipts, conference agendas, etc. Travel charges should be tested against the criteria in the Subgrantee Travel Policy.
Telephone	Telephone logs.
Contractual	Contract, rental or lease agreement; billings for services; evidence of completion.

10. Does the amount on the original invoice agree to the amount paid per the canceled check? Does the endorsement on the check agree to the payee?
11. Has the invoice been marked/canceled in such a way to avoid double payment of the charge?

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12. Has the charge been approved by an appropriate official of the subgrantee?
13. Has the charge been properly allocated to the appropriate budget category, or in the case of charges shared between programs, to the appropriate program?
14. Where applicable, was the item procured according to appropriate state and federal guidelines?
15. Is the charge necessary and reasonable for the administration of the grant programs?
16. Is the charge allowable? This is determined by examining items 6 through 15. If there is a "NO" answer for items 6, 7, 8, 9, 10, 12, 13, 14 or 15, the accompanying charge should be listed as a finding in the monitoring report. A "NO" answer to item 11 is an administrative finding. Items 7, 13 and 14 may not be applicable to all charges. All "NO" answers should be marked in such a way on the workpaper so as to be conspicuous, i.e., written in red.

Non-payroll Cash Disbursements Test Workpaper Items

<u>Item Number</u>	<u>Item</u>	<u>Where Found</u>
1	Check Number	Subgrantee Check Register or Disbursements Journal
2	Payee	Subgrantee Check Register or Disbursements Journal
3	Check Date	Subgrantee Check Register or Disbursements Journal
4	Check Amount	Subgrantee Check Register or Disbursements Journal
5	Budget Category Charged	Subgrantee Check Register or Disbursements Journal
6-16	Testing Results	Test Procedures

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.50.23
SECTION	MONITORING SUBGRANTEES	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	PAYROLL DISBURSEMENTS	REVISION NUMBER 99-001

PAYROLL DISBURSEMENTS

Review Objectives:

The granting agency should establish the following:

1. Employees shown on the payroll records are authorized, qualified and hired in accordance with the organization's administrative requirements which are reflected on the organization chart and the grant agreement. This information should be in the personnel folder of the employee.
2. Payrolls are accurately calculated on the basis of authorized rates of pay.
3. Payrolls are calculated based on actual hours worked per approved time sheets.
4. Payroll transactions are accurately recorded in the accounting records.
5. Employees charged to federally assisted programs are authorized by the approved budget. If there have been any significant changes in staff functions since the beginning date of the grant agreement, the changes should have been reported to the granting agency.
6. Fringe benefits arrangements affecting federal grant programs are consistently applied to all the organization's operations.

Review Procedures:

1. Choose a sample of payroll periods to examine. If there are a large number of employees per pay period, choose a sample of employees for each pay period selected. Refer to Subsection 31.50.22 for sample selection information.
2. For the sample chosen, find the information suggested in items 1 through 3 and enter that information on the workpaper.
3. Calculate the gross pay (Item 4) by multiplying items 2 and 3.

- a. Do time and attendance records support employee's wages?

Review time and attendance records as to grant period and hours worked. Ensure that these records reflect actual work activities.

- b. Is leave time adequately documented?

Determine that time and attendance records support cumulative leave records.

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4. Examine the canceled payroll check. Does the amount of the check match the amount in Item 5? Note any differences at Item 7. Does the endorsement on the check match the signature on the withholding forms? Note any differences at Item 7. (This procedure may be eliminated for those subgrantees whose funds are in the State Treasury.)
5. Are the payroll charges allowable per the budget and the applicable OMB Circulars? Test the total amount being paid by agency for fringe benefits and determine pro rata share for salaries charged to your contract. Note any differences at Item 8.
6. Do written job descriptions exist for the staff? Note any differences at Item 7.

Is there a set of job descriptions included in staff personnel folders?
 - a. Are duties performed consistent with job descriptions?

Did this review reveal any differences between actual job duties and those described?
 - b. Do staff members have copies of their job descriptions?

What documentation does this subgrantee/contractor have to show each staff member was furnished with a copy of their job description?
7. Are personnel folders for staff properly maintained? Note any differences at Item 7.

Are folders kept in a secure place?

Is access to the folders properly limited?

Is confidentiality of information in folders maintained?

Are personnel actions documented?

Are yearly performance appraisals included in the folders?

Does the subgrantee/contractor have a list of documents to be included in personnel folders? If so, files should be reviewed based on this standard.
8. Are approved personnel policies written and are they uniformly available to the staff? Note any differences at Item 7.
9. Is there any evidence of nepotism or conflict of interest? Note any differences at Item 7.

Was any evidence revealed by interviews with staff during this review that nepotism or incidences of conflict of interest exists?

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10. Is there any evidence of political or sectarian activity? Note any differences at Item 7.

Did the review of Board minutes, minutes of other meetings, interviews with staff, etc. reveal any evidence of political or sectarian activity?

Payroll Disbursements Test Workpaper Items

<u>Item Number</u>	<u>Item</u>	<u>Where Found</u>
1	Employee's Name	Payroll Register
2	Rate of Pay	Employee's Personnel File and Grant Agreement
3	Time Worked During Pay Period	Employee Time Card/Sheet
4	Gross Pay	Item 2 X Item 3
5	Cost Charged to Grant	Payroll Register
6	Net Pay	Testing Procedures
7	Examination of Original Check	Testing Procedures
8	Allowable	Testing Procedures

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.50.24
SECTION	MONITORING SUBGRANTEES	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	PROPERTY AND EQUIPMENT	REVISION NUMBER 99-001

PROPERTY AND EQUIPMENT

Review Objectives:

The principle objectives are to corroborate or refute the following general attributes:

1. Recorded property and equipment exist and are being used in the operation of programs for which they were acquired or to which they are charged.
2. Property and equipment acquisitions and disposals have been properly authorized, approved and recorded.
3. Subgrantee is in compliance with the Subgrantee Inventory Management Policy.
4. Charges to grant programs for depreciation or use allowances were properly computed in accordance with applicable state and federal cost principles and the terms of the grant agreement.

Review Procedures:

1. Obtain a listing of property and equipment being used in the program under review.
2. Enter the information suggested in Items 1 through 5 on the workpaper.
3. For Item 6, was the equipment procured properly according to state/federal guidelines? Note: The actual purchase of the equipment should be tested according to the guidelines in Subsection 31.50.22.
4. For Item 7, is the subgrantee's inventory management system in compliance with the Subgrantee Inventory Management Policy?

Property and Equipment Workpaper Items

<u>Item Number</u>	<u>Item</u>	<u>Where Found</u>
1	Property Description	Subgrantee Inventory Records
2	Serial Number	Subgrantee Inventory Records
3	Agency Identification Number.	Agency Records or Equipment Tag
4	Original Purchase Price	Subgrantee Inventory Records
5	Program Which Purchased	Subgrantee Inventory Records
6-7	Test Results	Testing Procedures

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TOPIC	INTERNAL AUDITING	SUB-SECTION 31.50.25
SECTION	MONITORING SUBGRANTEES	ISSUANCE DATE JULY 1, 1998
SUB-SECTION	GENERAL ADMINISTRATIVE	REVISION NUMBER 99-001

GENERAL ADMINISTRATIVE

The following questions should be addressed by the granting agency. In most cases a "yes" or "no" answer is sufficient. Generally, each one can be answered while performing other tests in the previous sections of the monitoring instrument.

1. Does the agency have a written standard operating procedure for fiscal management?

Determine adequacy of operating procedures for fiscal and/or accounting personnel. Does this procedure clearly define authority and responsibility?

Compare the operating manual with employee's actual duties and responsibilities.

2. Are appropriate agency representatives adequately bonded?

Review current bond as to period and coverage.

3. Do the fiscal staff have current copies of the budget?

Request a copy of the grant and any approved or pending modifications from fiscal staff.

4. Is separate accountability maintained for contract or grant funds?

Review general ledger for recording of cash and disbursements according to grant and budget.

5. Are inter-budget or inter-program transfers occurring?

Review cash account to determine if all funds are properly deposited and all expenditures are budgeted.

6. Are journals and ledgers maintained on a monthly cumulative basis?

Check journals and ledgers as to period of closeouts.

What is the most recent posting of journals and ledgers?

Review date of last entry in each journal and ledger.

7. How often are the bank statements reconciled? Review all bank reconciliations for the grant period.

What is the date of the most recent bank reconciliation?

Obtain or review the most recent bank reconciliation.

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Are all funds received accounted for in deposits?

Trace all cash receipts to the bank deposits.

8. Are reports submitted to the granting agency on a timely basis? If not, why?

9. Are refunds of workers' compensation insurance properly deposited?

Determine if procedures in the operations manual for refunds are being followed.

What evidence is available that workers' compensation is carried on all staff and participants?

Compare workers' compensation insurance policy with payroll.

10. Have any funds been generated by the project? If so, how have they been accounted for?

Examine cash and revenue accounts to determine any receipts other than granting agency funds.

11. Are any in-kind or matching contributions required by the project? If so, how are they met and supported?

Review project agreement for in-kind or matching contribution requirement. Review in-kind vouchers for documentation and verify a sample of the vouchers.